



Defense Contract Management Command



UNIT COST MANAGEMENT & ALTERNATIVE FINANCING

Concept Overview

Structuring the best solution

PLAS/UCM Conference

11 September 97

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Agenda

- History 101 - What's driving the need to change?
- Up front: Potential problems and benefits
- Benchmarking
- DCMC Team progress report - *Grade A+*
- Anticipated Unit Cost Management approach
- Big picture Schedule
- How can we use the data?



History 101



What's driving the need to change?

- Continual unresourced shift of workload
- Ongoing effects of glideslope mgmt
- POM 98-03 identified funding shortfall
- Issue Group Study
- PDM II direction
- QDR and potential follow on study impacts
- Director focus - “right thing to do” “need to move from managing the budget to cost management”

So the Command is committed to moving toward Unit Cost Management



Two Critical Concepts

Unit Cost Management

- *Internal approach to managing costs*
- *Focused on outcomes vs inputs*
- *Allocates costs to outputs*
- *Facilitates resource planning and allocation*

Alternative Financing

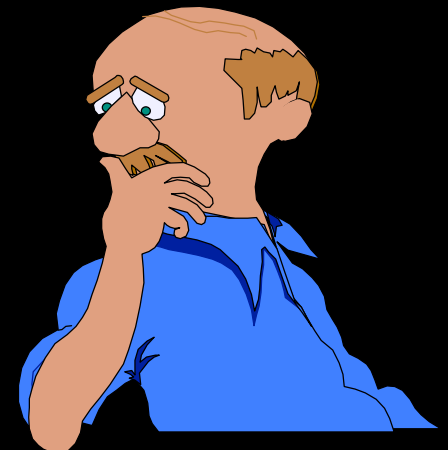
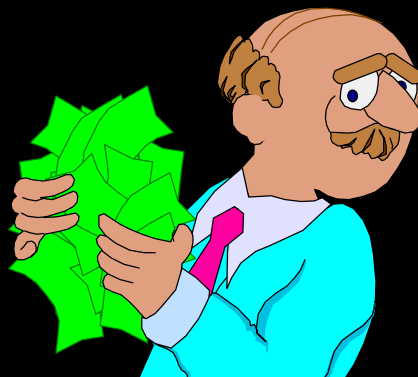
*Focuses on best revenue source:
O&M, DWCF, Service Level Billing,
Reimbursables, OSD controlled
O&M, Board of Directors
controlled O&M, etc.*

Separate issues ... but obviously linked



“We tried this before, what’s new this time?”

- Bottom line: *the money may change hands*
- QDR and other reviews call for us to continually rejustify our existence in terms that are easily understood by decision makers that are often not familiar with the business





So what does that mean to us?

- Engaged to look at Contract Management even more like a business
- Challenged to look at ourselves from a *CUSTOMER'S* viewpoint
- Must be able to clearly articulate:
 - *what we do/who we do it for*
 - *what it costs*
 - *what we're doing to reduce our costs and improve our performance*

Sounds great, why is it so hard?



First, some definitions of Unit Cost



- Internal approach to managing and controlling cost
- Identifies customer focused outputs and collects costs associated with producing those outputs
- Computes a total cost per unit of output produced
- Most often used to seed Defense Working Capital Fund (DWCF formerly DBOF) rate structure



Up-Front - Potential Trouble Spots



- Strong advocacy for and sentiment against alternative funding options in OSD and on Capital Hill
- DCMC not equipped to perform broad based billing and marketing functions
- Are our systems and procedures mature enough to collect required data?





Still More Potential Trouble Spots

- Who are our real customers and what outputs are important to them? At what organizational level and detail level *should we be prepared to negotiate* workload and costs with them?
- Single customer / multiple providers. *How do we avoid costly over-marketing?*
- Many customers do not have a vested interest in the complete portfolio of our services

How do we ensure that we institute effective “cost management” and not just “cost allocation”?



Up-Front - Potential Benefits

Improved ability to:

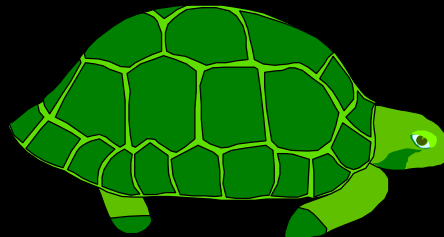
- articulate what we do, what it costs, and how we're improving to external stakeholders
- quantify the resource impacts of new mission gains and old mission losses
- frame intra-DCMC resourcing questions on a much more quantitative basis
- frame performance/cost tradeoffs
- benchmark and export smart cost management ideas





What we've seen from our benchmarking of other activities

- Phasing into UCM
- Expanding “outputs” as data systems improve and customers demand more accountability/visibility of cost data
- DWCF Activities - Having trouble getting their customers to pay bills
- Realizing there's not much “how to” documentation
- Focusing too much on billing and not enough on cost management





Unit Cost/Alternate Funding Team

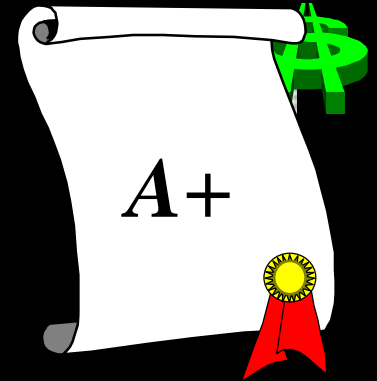


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- o **Bruce Zimmerman**
 - Seattle
- o **Cathy Berrett**
 - DCMDW
- o **Charlotte Matousek**
 - DCMC Int'l



DCMC Unit Cost Team

- Progress Report



- Developing an overall Unit Cost Management System
- Drafting a workable implementation plan
- Testing changes to PLAS reporting requirements
- Leading a functional review
- Integrating with PLAS/METRICS and DCMC Resource Management Process
- Identifying training requirements
- Trying to “get the word out”
- Highlighting smart ways to *use* the information



Accurate Business Process Reporting is Key

- DCMC “One Book” identifies and explains individual business processes that comprise Contract Management
- Performance and Labor Accounting System (PLAS) collects data by “One Book” process
- Unit Cost Management assembles individual business processes into customer focused output categories and prices them out



From the beginning, the team consensus has been that ...



Establishing a tiered/phased solution is essential

- **Financing/Revenue source decision may be separate but *must* be linked**
- **Critical building blocks (One Book, PLAS, Powerplay, Metrics, etc) are in place but our experience with them is limited**
- **We must be able to easily identify cost drivers and drill down into data to find ways to reduce costs and improve performance**





How can we structure our solution?

Tier 1 - External Funding Source - O&M, DWCF, Direct Reimbursable, Combination, etc.

Tier 2 - Unit Cost Management - Internal Management approach to cost management based on customer focused outputs

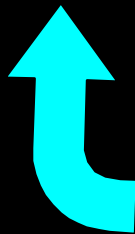
Tier 3 - ABC - Internal process directed with the goal of decreasing total costs for key outputs

The “What”

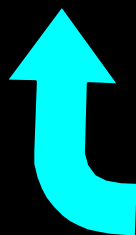


Goals of the three tiers

Tier 1 - Identify the best *REVENUE* source



**Tier 2 - *COST MANAGEMENT* to facilitate
Planning, POMing, Budget Allocation,
Performance Management**



**Tier 3 - *COST CONTROL* and
*PERFORMANCE IMPROVEMENT***



The “Why”



Key “Users” vary by tiers

**Tier 1 - Highest level - Customers,
HQ DLA, AQ, OSD staff, Services**

**Tier 2 - Mid Level - AQ staff, Business Office,
RUC, BPT, District Staffs**

**Tier 3 - Working Level - BPT, District Staffs,
Field Offices**

The “Who”



Current UCM development strategy

- Testing a strategy that looks at DCMC as a customer would
- Ensure that “outputs” are built on “One Book” processes but packaged with a customer focus
- Build “outputs” in such a way that they can be unbundled in the future as customer demands dictate

Will allow us to phase into more tailored Contract Management options in the future



The Team's approach has been to ...

- Identify core CAS processes that are routinely performed on contracts - "Basic CAS"
- Develop a methodology to differentiate among contracts of different "kinds"
- Identify services which are contract specific but are over and above the scope of a typical contract
- Identify services performed before an actual contract is written (Early CAS, pre-award services, Industrial assessments, etc)
- Identify services which are *contractor but not contract* specific (business systems reviews)
- Identify G&A and other overhead expenses



UCM - Initial Cost Pools

*46% of test
site PLAS hours*

- **Basic CAS (by contract “Kind”)**
 - **Current kinds under study - Supply, R&D, Sys Acq, Service, Facilities, Letter, Unpriced orders, Other**
- **Pre Award Support (including Early CAS)**
- **Mandatory Product Audits**
- **Contractor System Reviews (mostly business systems related)**
- **Other CAS (Contingencies)**
- **General Management**



Big Picture Schedule

FY 97 - Develop UCM system

Conduct pre-test of ability to report costs by contract kind

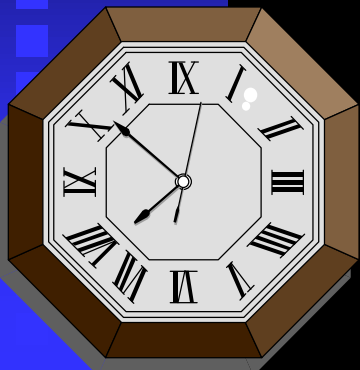
Perform review of all functions for Value Added

FY 98 - Test UCM system

**Ensure that systems and procedures support
Evaluate UCM areas for Alternative Funding
applicability**

Develop long range implementation plan

**FY 99 - Full implementation of UCM
Testing of Alternate Funding
for select UCM pools**





So, when we're up and running with UCM, **How can we use the information**



- Compare an activity to its own past performance based on *cost AND workload* accomplishment
- Compare an activity to “peers” (similar work mix, size, industry)
- Benchmark standards for cost management excellence
- Frame discussions on future resource needs and highlight where to drill down into resource drivers
- Goal is not to force “average costs” on every activity. Rather, we want frame resource management decisions with a single focus.